

PERFORMANCE MANAGEMENT OPTIONS

A Report Prepared for the

Legislative Fiscal Division

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INTRODUCTION

The legislature defines the activities of state government through policy development, including the appropriations process. This work determines what state government should be doing, what it should accomplish, how much should it cost, and where the revenue to support the costs should come from. This report presents the concept of performance management to provide new tools to assist in establishing the goals of state government, raise accountability of those involved in the process, and establish a process to assure goals are met. This report continues a series of projects undertaken by LFD staff during the 2005 biennium interim, where the ultimate goal was to provide documentation of what state government is doing and how the legislature could influence these activities.

In the 2005 legislative session, the legislature passed SB 109, which required all government agencies, including the Judiciary and the legislature, to develop strategic plans containing performance measures. Governor Schweitzer subsequently vetoed the bill.

WHAT IS PERFORMANCE MANAGEMENT?

In today's environment, performance management is viewed as a comprehensive system to assure government planning, budgeting, and reporting are in direct relation to what government seeks to accomplish. It is a system to link people, process, and ownership of the job of government.

Performance management can be accomplished in many ways across the spectrum of state government. It can be large and complicated, but it does not need to be. It can simply be woven into the everyday business of government. In the simplest context, performance management is a means to assure what the legislature wants to be addressed is done within a timely manner within the resources that have been appropriated. It is the transformation of an appropriation to program work.

There are some things that performance management is not. It is not an audit. It is not about distrust. Nor should it be seen as punitive in nature. It is also something that should not be done as a symbolic gesture of oversight. To move towards this process, a commitment to participate is necessary, even when it means implementation of corrective actions.

WHY SHOULD THE LEGISLATURE BE INTERESTED?

The legislature is the board of directors for the state. Consequently, the legislature has the responsibility to articulate what government should do to establish accountability that it is done in the most efficient and cost effective manner. Providing a framework for performance management can help the legislature articulate its goals and expectations and increase the accountability of state agencies to the legislature.

Performance management adds an additional tool for this purpose. The legislature could find this tool of interest as it could:

- ◆ Articulate what should be accomplished with the provided resources
- ◆ Provide increased visibility of the legislature in the interim to reduce the “out of sight - out of mind” philosophy held by some agencies
- ◆ Limit the wait and see approach between legislative sessions

Most notable is the ability to use performance management activities on target issues. By taking pieces of performance management and utilizing them in regard to very specific issues, the project takes on the size and shape the legislature desires, rather than across-the-board implementation. With the varying degrees of performance management, some activities of interest are:

- ◆ Provide a formal means to receive reports and provide feedback during the interim on items of interest
- ◆ Utilize current performance or accountability measures to establish program budgets
- ◆ Bridge the knowledge gap created in a term-limited legislature
- ◆ Establish policy regarding the analysis of new proposals
- ◆ Use in other appropriation bills to establish benchmarks, outcomes and resolution
- ◆ Create a framework to set priorities

WHAT DOES THE STATE GET OUT OF IT?

There are benefits to the investment into performance management in real time and in the future for both the legislature and agencies. The benefits to the legislature predominantly lie in the ability to raise the level of expectations and remain present during the interim. This could include:

Legislature	
Real Time	Future
Formal processes for periodic reporting during the interim to assure HB 2 reporting requirements are met.	Continuity between sessions to bridge the knowledge gap in a term-limited legislature
Current information on current issues to identify unintended consequences or benefits prior to the next legislative session.	Standardized method to evaluate new budget proposals based on available resources for proposed outcomes and articulate expectations
Fiscal analysis of issues as they occur, not after the fact.	Increased visibility of the legislature during the interim
Ability to influence activities during the interim to assure legislative outcomes	Continual refinement of performance management tools to increase effectiveness of the legislative process

On the other hand, agencies may not immediately see the value in performance management activities. However, progressive managers will find that participating in performance management activities will provide opportunities for planning, program development, and budget management. The benefits to agencies could include:

Agencies	
Real Time	Future
Formal reporting process to assure information needed is provided	Increased ability with greater stability, to plan based on formal process
Continual interaction with the legislature.	Identify strengths and weaknesses within the agency
Legislative expectations clarified	Increase the dialogue between agencies and the legislature outside the crunch of session
Increase in the tie between appropriations and outcomes	Raise accountability throughout the agency

HOW DOES PERFORMANCE MANAGEMENT WORK?

Performance management can take on different forms, depending upon what one wishes to accomplish. In some academic circles, performance management is only “good” if one starts from scratch to establish mission, goals, objectives, and a budget to reflect those items. In other circles, performance management can take pieces that are already present and create a system that works. Given time and resources constraints, it may not make sense to immediately attempt to follow the purist approach; rather, the legislature may want to look at what is already in the environment of state government and use it to create performance management activities where necessary. In this sense it is a targeted approach to performance management, but one that can be expanded and improved over time.

There are two stages to performance management: 1) determining the targets and 2) building a plan.

Selecting Performance Management Targets

If the committee chooses to look at targeted performance management activities, determining what would be targeted is the first step. Issues raised in the 2005 legislative session could lead directly to the performance management activities of the interim. The following list (with specific examples) may assist in establishing or prioritizing a list of activities to consider:

- ◆ Provide oversight to areas where less than desirable outcomes have produced unintended consequences, including excessive expenditures
 - Judiciary IT project
- ◆ Examine program expansions to achieve an increase in positive results
 - Regional investigator positions in the Enforcement Division of the Department of Fish, Wildlife and Parks
- ◆ Create a formal reporting process for reporting requirements in HB 2
 - Recruitment and retention of staff at the Montana Veterans Home
- ◆ Implement budgeting with established accountability measures
 - Montana University System
- ◆ Develop a new proposal evaluation tool
 - Create a framework for appropriation sub-committees to analyze new proposals

Building a Plan

Performance management works by outlining a process to assure that what the legislature intended, wants, or needs is accomplished. Therefore, the second step is to build the plan associated with the project. Please note that key to this process is buy-in from agencies that may need to manage a project, concise reporting requirements and flexibility. The following uses flow charts and other tools to show how the process would be structured and implemented. Figure 1 is a basic flow chart that can be followed for the first three examples above and Figure 2 is that same flow chart written in a descriptive format. In this flowchart, reporting requirements would be structured to get the information needed, but not in the format of long cumbersome reports.

Less than desirable outcomes

Figure 3 summarizes the activities that would be required to follow the progress of the IT project in the Judiciary. This project was designed to improve the flow of work within the court system. During the 2005 biennium, the Judiciary was unable to meet the expectations of the 2003 Legislature. This oversight would provide accountability to the project to assure that progress is made and milestones are met.

Program Expansion

Figure 4 demonstrates the reporting requirements related to the appropriation for regional investigators. This appropriation was provided on the basis that these high level investigators would increase Montana's ability to combat wildlife crime. The HB 2 language is provided for quick reference. In this case, the timing of the follow up is directly tied to the language in HB 2. However, if the committee wanted to increase the frequency of the reporting, this could be done.

Reporting process for reporting requirements

Figure 5 outlines the activities related to increasing recruitment and retention of direct care staff at the Montana Veterans Home. Flexible funds are available to assist with this process. It was the legislature's view that stabilizing staffing at the home would increase the quality of care provided to Montana veterans and enhances morale at the same time.

Budgeting with accountability measures

In other situations, the implementation plan will look considerably different. For example, attached to this document is a document titled "*Performance Indicators in the Montana University System*" prepared by Alan Peura. This document walks through how utilizing current goals and subsequent accountability measures can be transitioned to the budgeting process. This is another form of performance management that can be targeted to large or small entities based on achievement of accountability measures.

New proposals

One other example is the ability to take performance management principles to derive a system to determine the feasibility of adopting new budget proposals. Figure 6 is broken down in three stages, interim, budget analysis/session and post session. In the interim the policy and process would be developed, then the process would be used in the budget analysis and subsequent appropriations and finally in the post session, the outcomes would be tracked by the LFD.

HOW MUCH WOULD THIS COST?

Nothing in life is free, or so they say. This project would require staff time of the LFD and the selected agencies. If the systems are kept simple, the activities of department personnel should be absorbed in the process of doing business. Agencies should be tracking the outcomes of their efforts to determine if the investments made are producing any outcome, good or bad. This activity could shift some of the priorities within agencies, but it should not require any additional funds.

The LFD time required would be dependent upon the scope of the project. Most of this time would be utilized to implement tracking systems and review reporting documents. Much of this work can be considered part of agency oversight responsibilities. Therefore, it is subject to the amount of available staff time given other work demands, comp time hours, and the preparation required for the special session.

HOW DO WE PROCEED?

Three components have been discussed throughout this report:

- ◆ Oversight of policy implementation
- ◆ Using accountability measures for budgeting
- ◆ Development of a tool to evaluate all major new proposals

Each area is independently discussed in regard to next steps.

Oversight of policy implementation

To proceed with the oversight of policy implementation, the LFC may wish to consider the value behind establishing a formal reporting process to enforce actions made by the legislature. Earlier in this report discussion was provided on the potential process for three activities.

Should the LFC wish to proceed in this manner, the committee may want to request staff assigned to the Judiciary, the Department of Fish, Wildlife and Parks, and the Department of Public Health and Human Services implement a formal performance management process to determine if the desired outcomes as articulated in HB 2 will be achieved. The staff would be the liaison between the LFC and the agency. Staff could then report back to the LFC at predetermined intervals to report on progress of policy implementation and the process itself.

Budgeting with accountability measures

To proceed with the university system accountability measures component of performance management and budgeting, the LFC may want to consider the extent to which members would like to see the 2009 biennium budget driven in part by these accountability measures. Given the size of the task, the initial effort in this direction should start with new proposals in the university system.

Should the LFC wish to proceed in this manner, the committee may want to communicate with the Postsecondary Education Policy and Budget interim subcommittee (PEPB) and request that PEPB complete the accountability measures already established in the 2003 biennium, by establishing benchmarks and measurable performance objectives against these benchmarks. PEPB could then report back to the LFC with these benchmarks and a recommendation that prioritizes the accountability measures and confirms a renewal of the agreement with the Board of Regents, so that LFC could then consider using these to drive specific components of new proposals in the university system budget in the 2009 biennium.

Evaluation of Major New Proposals

To proceed with developing the evaluation tool for major new proposals, the LFC may wish to consider the extent to which members would like to see the new proposals in the 2009 legislative session tied to accountability measures or predetermined outcomes.

Should the LFC wish to proceed in this manner, the committee may wish to direct the staff to begin development of such an evaluative tool with participation from select LFC members and the Office of Budget Program and Planning (OBPP). This work group could then report back to the LFC on the development and provide direction to implement such tool during the budget analysis.

TIMELINE OF PROJECT

While projects can be viewed as independent, they do roll into the entire concept of adopting performance management tools. The total project is slated to progress through four distinct periods in the legislative cycle: the interim, pre-session (budget analysis), session (regularly scheduled session) and post-session. In order to “see” the progression from pilot projects to performance management implementation, the entire project is broken down as follows:

Interim (June 2005 through September 2006)

- ◆ Integrate accountability measures into the Montana University System (MUS) budget through interaction with the PEPB
- ◆ Track progress of the IT project in the Judiciary, implementation of Regional Investigators in the Department of Fish, Wildlife and Parks and the recruitment and retention of direct care staff at the Montana Veterans Home
- ◆ Create policy regarding the review of major new proposals to build framework for evaluation

Pre-Session/Budget Analysis (October 2006 through December 2006)

- ◆ Summarize outcomes of oversight projects, integrate into budget analysis if necessary
- ◆ Analyze MUS budget in terms of the accountability measures
- ◆ Analyze major new proposals based on defined process

Session (January 2007 through April 2007)

- ◆ Interject performance management training to joint appropriations subcommittees
- ◆ Establish accountability measures with approved new proposals
- ◆ Utilize performance management tools in cat and dog bills
- ◆ Determine targeted performance management projects for 2009 interim

Post Session (April 2007 through June 2007)

- ◆ Add approved accountability measures to the fiscal report
- ◆ Integrate performance management work into LFD agency oversight work
- ◆ Review success of implementing performance management with appropriations process
- ◆ Integrate monitoring, reporting and accountability functions into interim committee work plans

As each phase is concluded and the next phased approached, the committee would need to review what has been accomplished and set the work plan for the next phase. In breaking down this process, the legislature can chose to amend the scope of the project or drop a portion or the entire project at any given time.

DECISION POINTS

The scope of this project can be large or small. Getting to “go” would be dependent upon the choices made by the committee. The committee would need to consider the following decision points:

1. Does the LFC wish to direct staff to proceed with the interim phase of the performance management project?
 - a. Option A – Direct the staff to proceed
 - b. Option B – Take no action

If the LFC does wish to proceed with the interim phase of the project, the following decision points need to be addressed:

2. Does the LFC wish to execute formal oversight of policy implementation?
 - a. Option A – Direct staff to establish formal oversight on the following projects:
 1. IT project in the Judiciary
 2. Regional investigators at the Department of Fish, Wildlife and Parks
 3. Recruitment and retention of direct care staff at the Montana Veteran’s Home
 - b. Option B – Direct staff to establish formal oversight on committee selected projects
 - c. Option C – Take no action
3. Does the LFC wish to examine the use of accountability measures in the budgeting process?
 - a. Option A - Request that PEPB:
 1. Complete each of the accountability measures by establishing benchmarks and measurable performance objectives against the benchmarks
 2. Submit to the LFC by September 2006, a report that includes the completed accountability measures ranked in priority order; and
 3. Submit to the LFC by September 2006, a renewal agreement between the PEPB and the Board of Regents regarding the accountability measures
 - b. Option B - Direct staff to work with appropriate individuals to develop a plan to use the accountability measures to drive specific components of the university system budget and present a report to the LFC by September 2006
 - c. Option C – Take no action
4. Does the LFC wish to develop an evaluation tool for major new proposals?
 - a. Option A – Direct staff to work with the OBPP to establish this tool and report back to the LFC at the March 2006 meeting
 - b. Option B – Select LFC committee members to work directly with staff and OBPP to establish this tool and report back to the full committee at the March 2006 meeting
 - c. Option C- Take no action

Figure 1

This flow chart represents a process that could be used to track reporting activities currently in HB 2 or other activities.

This would be looking at performance as it happens.

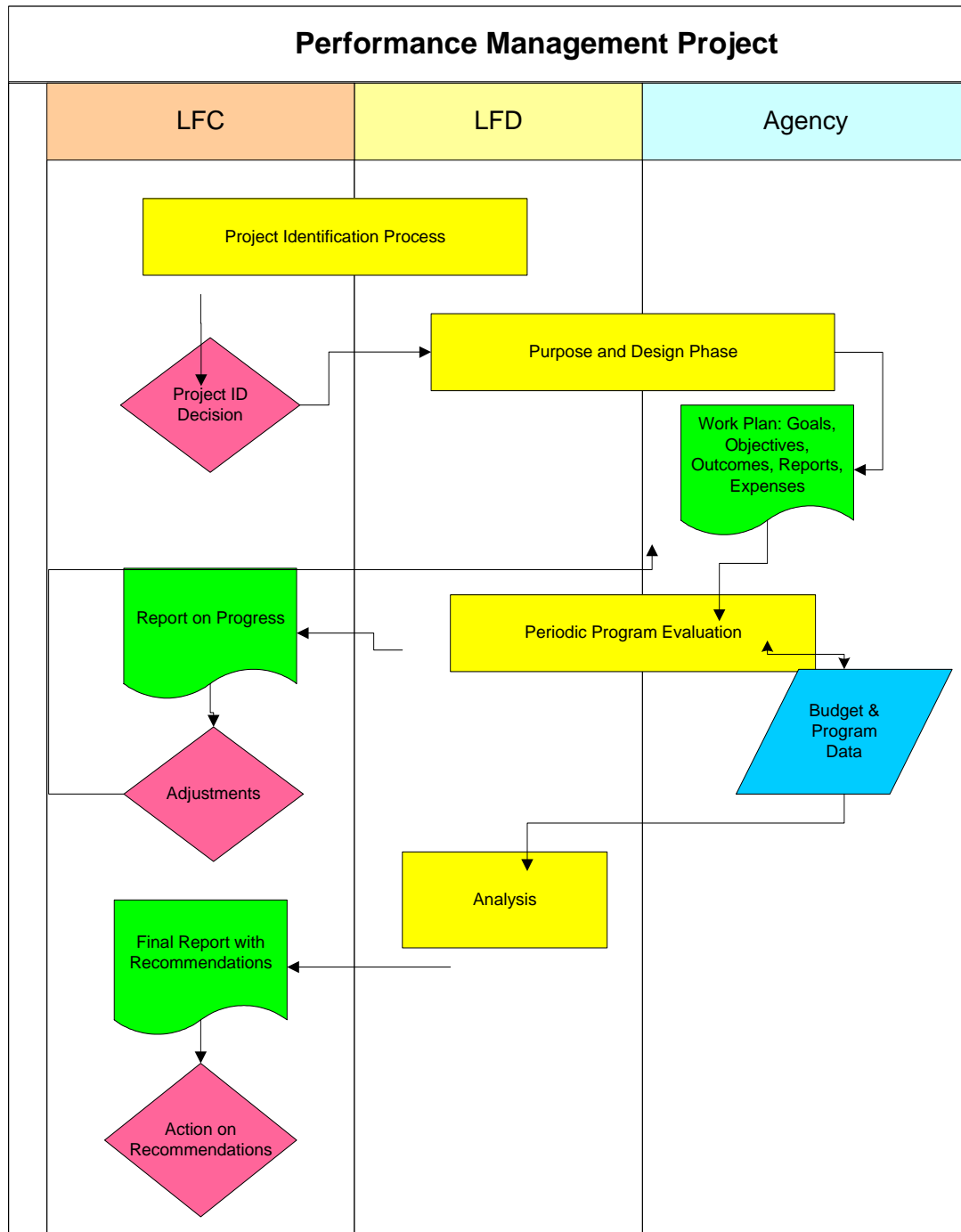


Figure 2

This flow chart provides narrative detail of a process that could be used to track reporting activities currently in HB 2 and other projects.

This would be looking at performance as it happens.

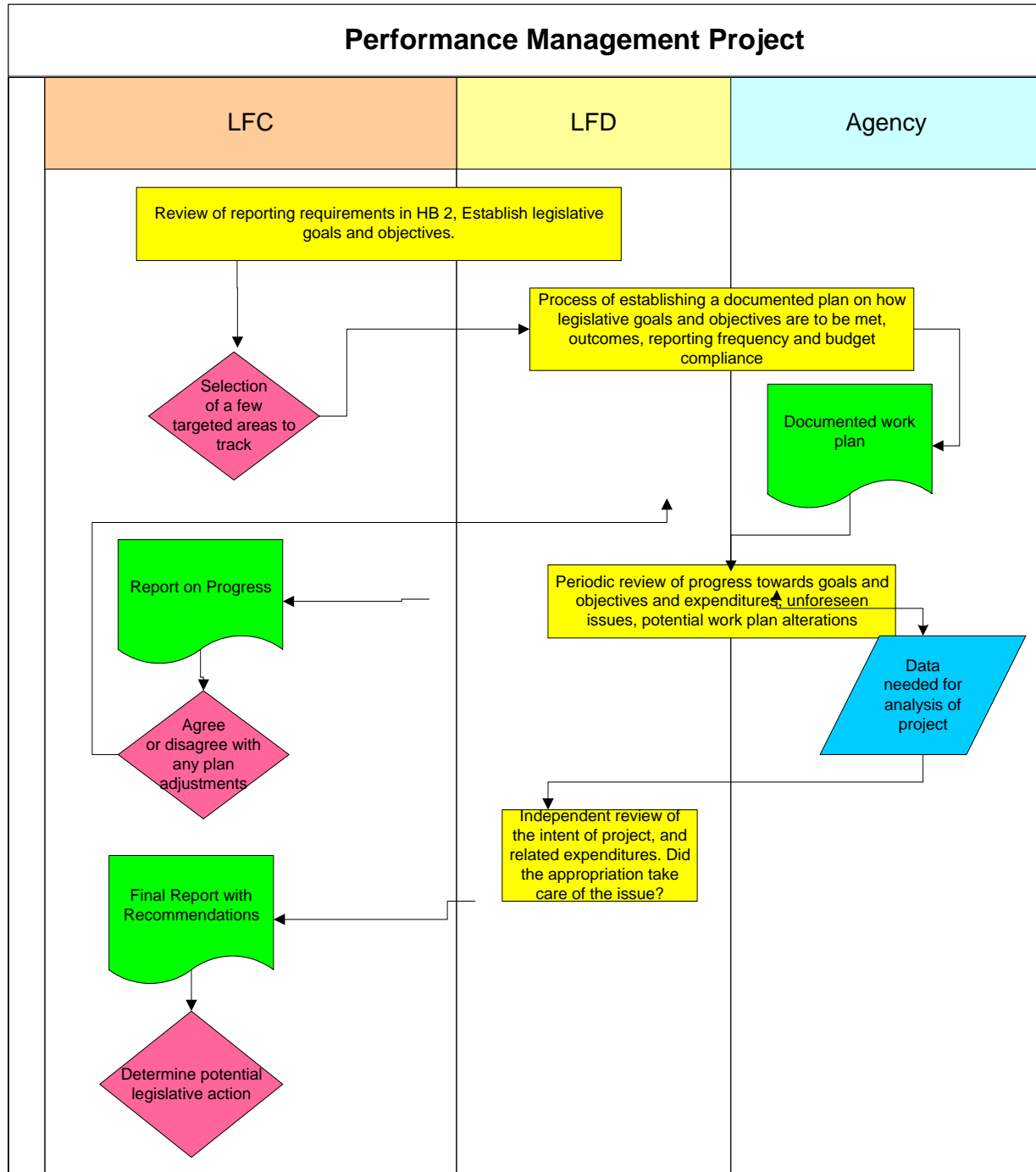


Figure 3

The Judiciary received a \$1.1 million general fund appropriation to complete the installation of case management systems in district courts and courts of limited jurisdiction. This flowchart provides the steps that the Legislative Finance Committee (LFC), the Legislative Fiscal Division (LFD), and the Judiciary could take to track the progress of this installation.

The Judiciary shall present an annual written report by September 30 to the LFD and the LFC regarding the installation of case management systems in the district courts and courts of limited jurisdiction.

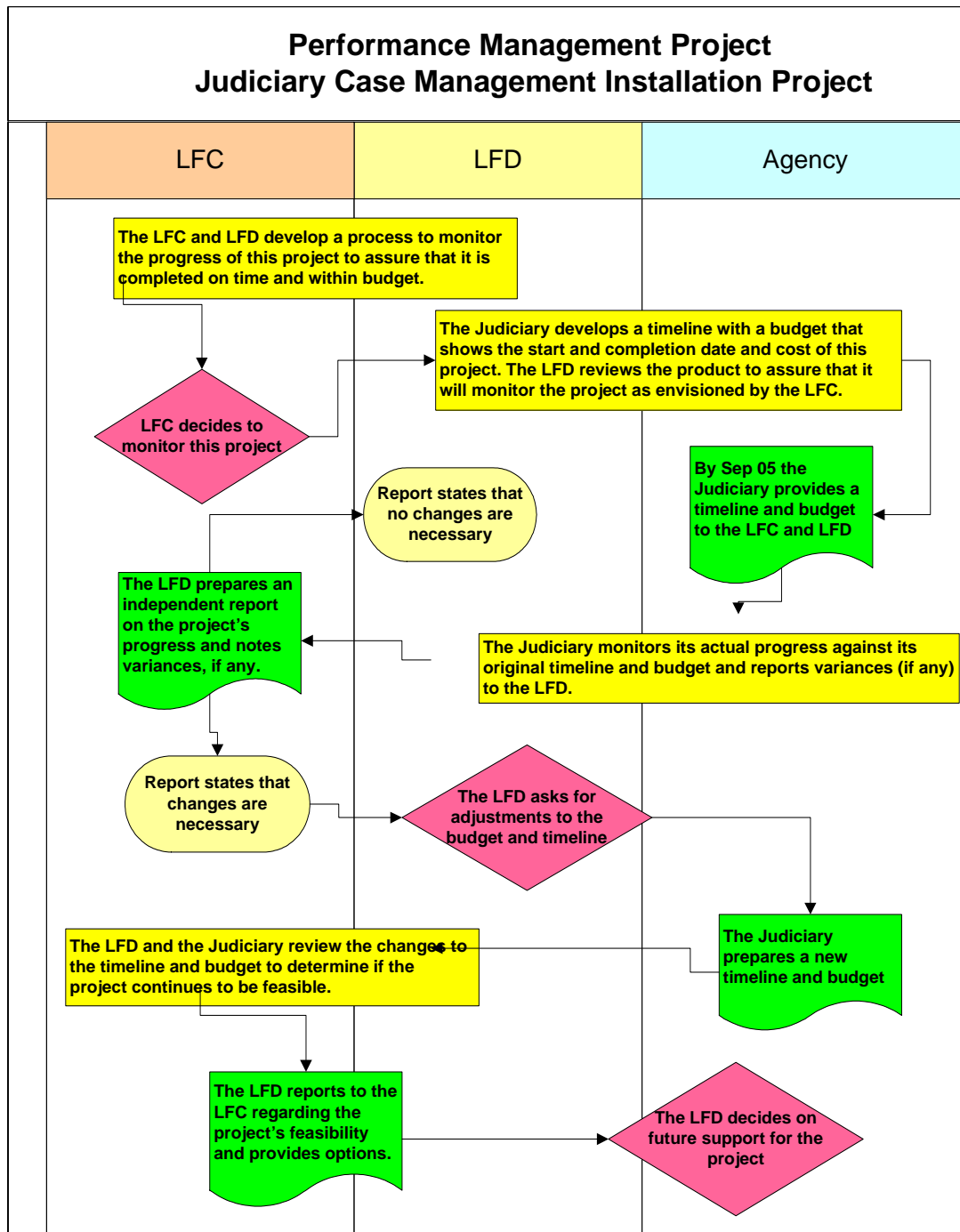


Figure 4

This flow chart represents an overview of tracking the progress of the implementation of Regional Investigators at FWP.

The department (Fish, Wildlife and Parks) shall present an annual written report by September 30 to the legislative fiscal division and the legislative finance committee regarding the implementation of the regional investigation positions and report on the level of restitution and fines collected.

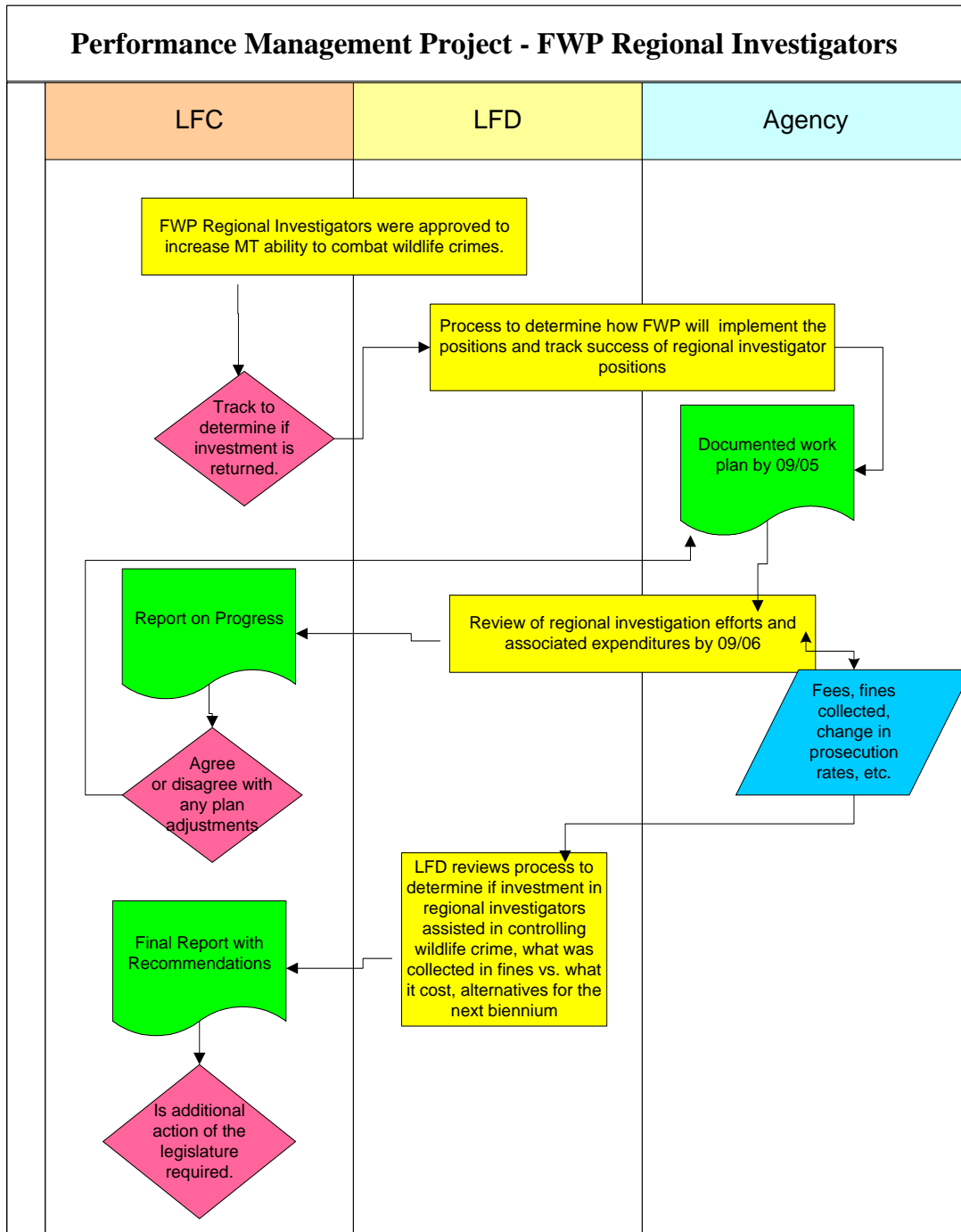
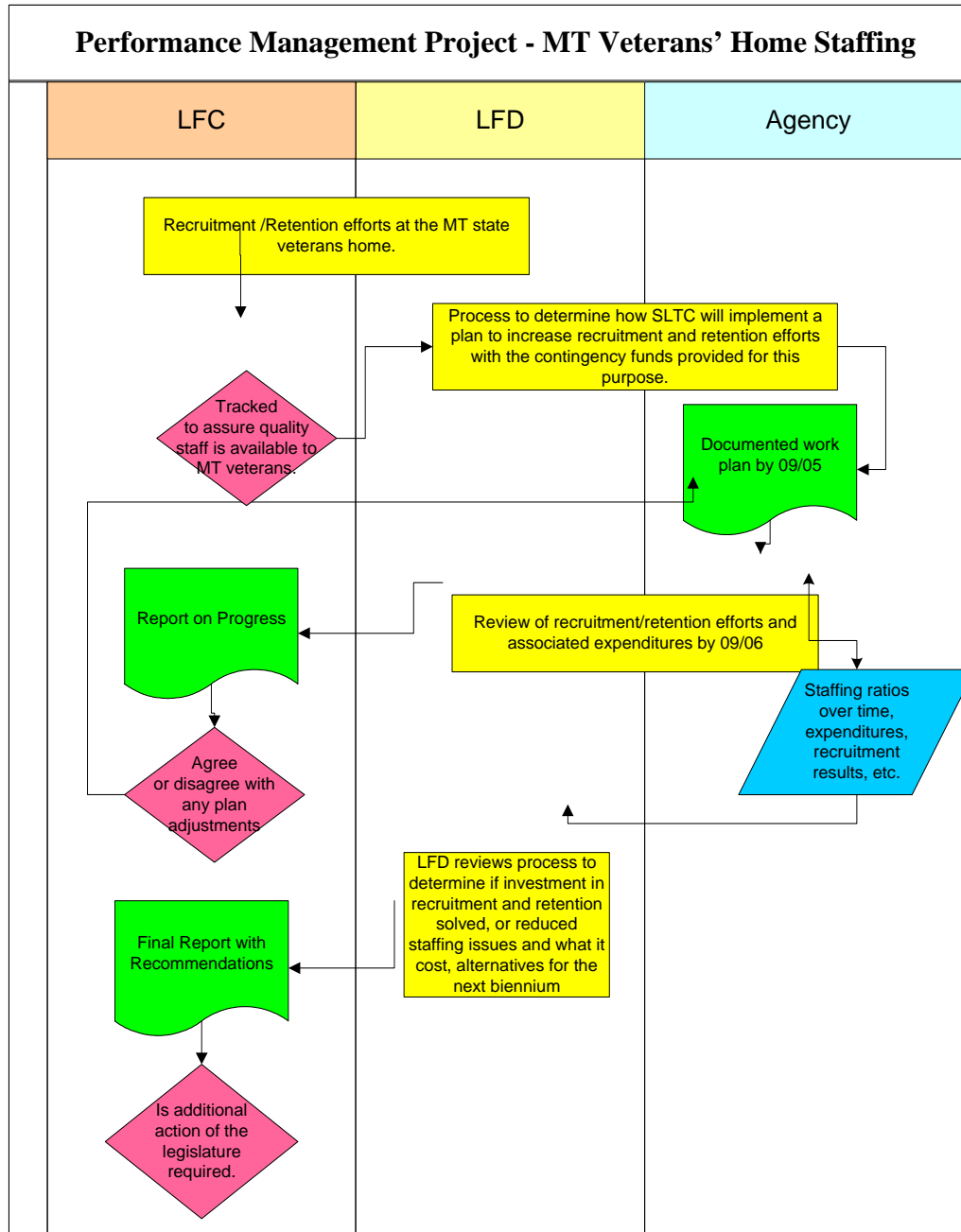


Figure 5

This flow chart represents an overview of tracking the recruitment/retention at the Montana Veterans' home.

The appropriation for the Senior and Long-Term Care Division includes funds to address the difficulty in recruitment and retention of direct care staff at the Montana Veterans' Home. The legislature directs the department to aggressively pursue options to resolve the problem of recruitment and retention of the staff at the Montana Veterans' Home, including consideration of such options as moving to pay plan 20, innovated education plans to promote advancement of staff, and partnership with university system to provide local education opportunities for direct care staff. The department shall present its plan to resolve this issue to the legislative finance committee by September 1, 2005, with a follow up report on progress toward resolution of the problem of recruitment and retention of direct care staff for the Montana Veterans' Home by September 1, 2006.



Interim
Note: OBPP would need to be involved in this activity

Budget Analysis & Session

Post Session

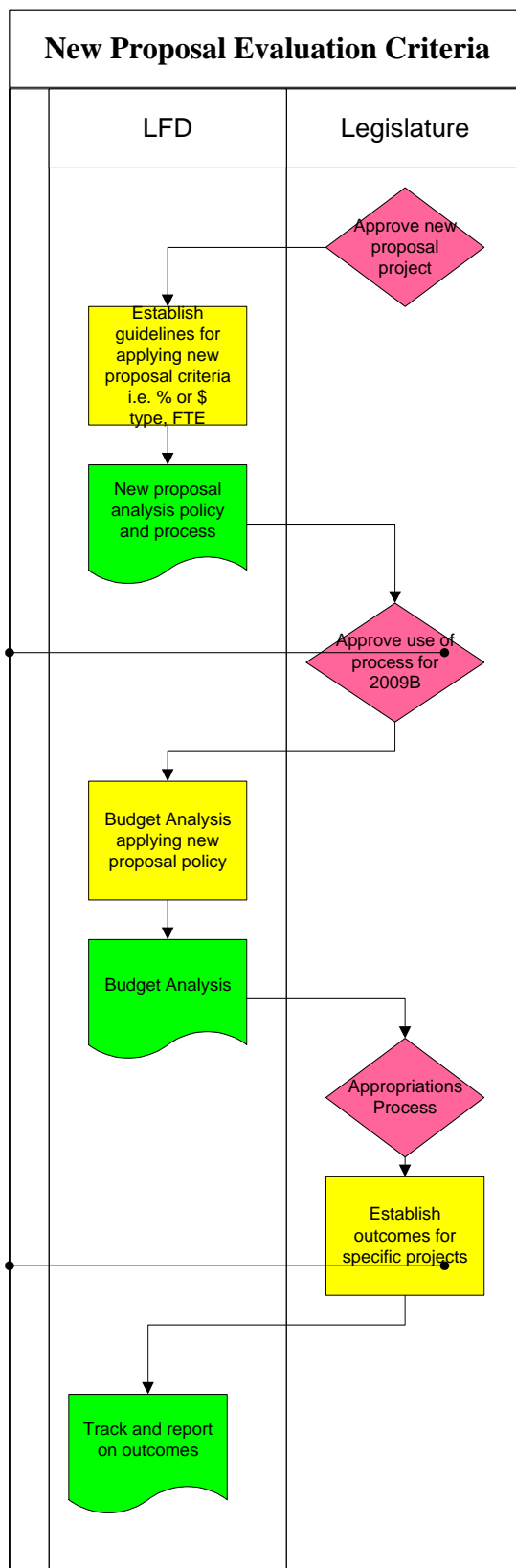


Figure 6

This flowchart represents a draft process that would be required to develop, test, implement and evaluate a new proposal performance management process.

PERFORMANCE INDICATORS IN THE MONTANA UNIVERSITY SYSTEM

During the 2001-2002 interim, the Postsecondary Budget and Policy Subcommittee (PEPB) of the Education and Local Government Interim Committee developed a series of six policy goals with twelve accompanying accountability measures that would be applied as the indicators of quality performance by the Montana University System. In both 2002 and 2004, the legislative members of PEPB and the Montana Board of Regents signed an agreement committing themselves to these measures, and the Commissioner of Higher Education now submits a bi-annual report to each legislative session that addresses the university system progress towards these accountability measures.

These accountability measures and policy goals include the following:

<i>PEPB-Recommended Policy Goals and Accountability Measures</i>	
<i>Policy Goal</i>	<i>Accountability Measure</i>
1. Prepare students for success through quality education	<ul style="list-style-type: none"> ○ Completion Rates ○ Retention Rates
2. Promote access and affordability	Affordability compared to other states <ul style="list-style-type: none"> ○ State Support as a percent of personal income and per capita income
3. Deliver efficient, coordinated services	Transferability among institutions <ul style="list-style-type: none"> ○ Percent of expenditures in instruction, administration, athletics, etc.
4. Be responsive to market and employment needs and opportunities	Job placement rates by field or program <ul style="list-style-type: none"> ○ Growth in FTE enrollment, certificates, and degrees conferred in 2-yr education
5. Contribute to Montana's economic and social success	Research and Development receipts and expenditures <ul style="list-style-type: none"> ○ Technology transfers (licensing and commercialization)
6. Collaborate with the K-12 school system and other postsecondary education systems	Collaborative programs with K-12, Community Colleges, and Tribal Colleges and private colleges (when appropriate). <ul style="list-style-type: none"> ○ Average SAT or ACT scores of first time full time MUS freshmen
Source: <u>Public Postsecondary Education Policy Goals, Accountability Measures & Reporting</u> , prepared for the Education and Local Government Committee and the 58 th Legislature, by the Joint Subcommittee on Postsecondary Education Policy and Budget, August 21, 2002	

The potential value of these accountability measures together with the joint commitment by the legislature and the regents is enormous, especially given the split constitutional authority over the university system, which gives governance authority to the regents while preserving state funding appropriation authority for the legislature. With agreement on these accountability measures in place, there is now an outline in place to more specifically define what the State of Montana would like to receive from the university system in return for state funding. And once that funding is appropriated,

the regents will know what performance goals for which they will be held to account to demonstrate the successful outcomes that the legislature is looking for.

Upon this foundation of an agreement about accountability measures, the legislature may want to proceed to build a methodology through which state policy goals that are linked to specific outcome objectives can play a larger role in legislative budget and funding decisions for the university system. In other words, legislative budget decisions could be driven by the degree to which budget decision packages and the program activities considered for funding contribute to progress towards these specific policy goals and accountability measures.

What remains to be completed, however, is identifying the performance benchmarks that would define success in each accountability area. For example, referring to the first policy goal in the figure above, the legislature needs to determine what completion rate and retention rate it would consider to be a successful performance by the university system toward the policy goal to prepare students for success through quality education. Determining these benchmarks would require identifying the current rates that each of the university educational units are operating at, comparing these rates to the accepted industry standards, and setting achievement benchmarks for each.

From that point, budgeting based upon university unit performance can begin.

BUDGETING FOR PERFORMANCE AT THE UNIVERSITY EDUCATIONAL UNITS

A couple of examples, based upon these accountability measures, could serve to demonstrate the methodology upon which the state funding budget could be built based upon performance.

Once again, using Policy Goal #1 and its accountability measures:

<i>Policy Goal</i>	<i>Accountability Measure</i>
1. Prepare students for success through quality education	<ul style="list-style-type: none"> ○ Completion Rates ○ Retention Rates

The legislature could, in HB 2, approve new proposal decision package appropriations whereby the university educational units would receive an additional appropriation in the second year of the biennium if they meet or exceed the performance targets for completion rate and retention rate during the first year of the biennium.

- DP 1 – Student Success Through Quality Education – Completion Rate - The legislature appropriates an additional \$___ general fund per FTE student during FY 20__ (second year of the biennium), up to a maximum of \$___, to each of the university educational units that attains the completion rate performance target of ___% during the academic year that occurs during FY 20__ (first year of the biennium). This will be a one-time-only (OTO) appropriation.
- DP 2 – Student Success Through Quality Education – Retention Rate - The legislature appropriates an additional \$___ general fund per FTE student during FY 20__ (second year of the biennium), up to a maximum of \$___, to each of the university educational units that attains the retention rate performance target of ___% during the academic year that occurs during FY 20__ (first year of the biennium). This will be a one-time-only (OTO) appropriation.

Through these decision packages, the legislature is clearly telling the university system that state funding is intended to purchase student success, as measured by completion and retention rates, and that the university system funding will be affected by their performance in these areas.

A reporting process would then be built into the interim committee workplan to update the progress toward these rates and to document those programs or activities within the university system that drive successful results. Thus we know which activities create success and those are the ones that would be funded going forward.

Another example of performance budgeting, this time using Policy goal #2:

<i>Policy Goal</i>	<i>Accountability Measure</i>
2. Promote access and affordability	Affordability compared to other states <ul style="list-style-type: none"> ○ State Support as a percent of personal income and per capita income

Clearly this policy goal is being measured by the resident tuition rates at the university educational units and the ability for Montana students to afford that tuition and pursue a postsecondary degree in state. Once again, following the same format illustrated in the first example, the legislature could approve decision packages that appropriate additional, incentive funding if the university is able to meet these accountability measures. Given that university tuition rates are set by the Board of Regents at their May meeting just following each legislative session, these accountability measures and the related funding could be applied to both years of the budget biennial period. Thus HB 2 could include a new proposal decision package such as:

- DP 3 – Promote Access and Affordability for Montana Students as Compared to Other States – The legislature approves an annual appropriation of \$___ to each of the university system educational units for each year of the biennium that each unit is able to keep tuition rates at or below the mean tuition level among the regional WICHE¹ member universities, up to a maximum of \$___. This will be a one-time-only (OTO) appropriation.
- DP 4 – Promote Access and Affordability for Montana Students as Compared to Income – The legislature approves an annual appropriation of \$___ to each of the university system educational units for each year of the biennium that each unit is able to keep tuition rates at or below a level that represents ___ percent of the average personal income level of Montana residents, up to a maximum of \$___. This will be a one-time-only (OTO) appropriation.

Once again, before proceeding to craft HB 2 funding based upon these accountability measures, the legislature would need to identify the industry standards of achievement for each of these measures so that genuine achievement benchmarks can be established for each of the university educational units.

¹ WICHE is the Western Interstate Commission for Higher Education, which is the regional association of postsecondary education institutions that provides a forum for valid comparative data between peer institutions, including comparative tuition data information. WICHE schools include the primary competing higher education institutions to the Montana University System educational units.

As these examples demonstrate, the first steps toward performance budgeting in the university system may best be started by considering funding for new proposals, rather than starting by building the base budget or even present law adjustments from the foundation of these accountability measures.

Constitutional Issues

Would a performance budget system such as this violate the “murky line”² of constitutional authority that exists between the legislature and the Montana University System? Specifically, would conditioning appropriations of state funding upon specific accountability measures violate the constitutional separation of authority whereby the Board of Regents has governance authority while the legislature has appropriations power?

Within the Montana constitutional configuration a tension exists between the Board of Regents’ autonomy that comes with governance authority and the power of the legislature through the appropriation of state funds. Through a series of legal decisions, this tension has been reconciled as follows:

- The Montana legislature cannot do indirectly, through fiscal appropriation, what it is not permitted to do directly by the Constitution. In other words, appropriation of state funds cannot be used to blatantly drive MUS governance policy, as governance is the constitutional role of the Board of Regents
- Legislative appropriation power does not extend to private funds received by state government that are restricted by law, trust agreement, or contract, such as student tuition and the other fees listed above
- Legislative appropriation power does, however, allow the legislature to establish requirements of MUS compliance with audit, accounting, and fiscal accountability measures
- The Montana legislature may establish conditions on the appropriated funds and, if the Board of Regents accepts the funds, then it also accepts the conditions

It would appear that the performance budgeting examples above would pass muster under these case law decisions, as the performance objectives have been agreed to by the Board of Regents. Further, the decision packages do not seek to appropriate private revenues (student tuition), nor do these decision packages “drive MUS governance policy” but rather they would reward performance with new funding packages that work toward agreed upon outcomes. Finally, the rewards for performance, additional appropriated funds, could be rejected by the regents if they are not in agreement, so that if the funds are accepted, so are the performance and accountability measures.

Next Steps: A Future Vision for Performance Budgeting in the University System

Going forward, should the legislature take the first steps toward a performance budget for the university system by starting with new proposal decision packages that are based upon clear policy goals and accountability measures? Subsequent steps could potentially move the entire legislative budget cycle, both the session and the interim, into the process of setting the accountability measures, negotiating the targets with the university system, budgeting around these measures, and then evaluating performance based upon the measures with the next budget targets rolling out from this evaluation.

² For more information about the Constitutional structure and history, see The Structure of Higher Education in Montana: Meandering the Murky Line, Montana Legislative Services Division, September 1999. Memo available at: <http://leg.mt.gov/content/publications/services/legal/opinions/regents.pdf>

Under such a budgeting system there would conceivably be a more genuine synergy between the clear policy goals of the legislature, the functions of the university system, and the budget that results from these goals and operations. This synergy could include:

- The appropriate interim committee or subcommittee collaborating with university system officials (regents, commissioner of higher education, presidents and chancellors, etc.) and the executive to come to agreement about the public policy goals, the accountability measures to achieve these, the benchmarks and targets for success, and the programs that move these forward. From this agreement each interim the university system builds its biennial budget together with the executive.
- During the session, the Joint Appropriations Subcommittee on Education would have a clear understanding of objectives that drive the budget during their hearings process, as members would receive a report from the interim legislative committee that includes the agreed upon budget drivers; the accountability measures and the programs identified to achieve these performance objectives. The university system could use these hearings as a means to explain how the proposed budget programs and funding would achieve the agreed upon performance objectives. Legislative decisions could be based upon the degree of confidence that these programs and funding levels demonstrate to bring about success toward the policy goals.
- Following the legislative session, the subsequent interim legislative committee or subcommittee would monitor the achievements of the university system towards the accountability measures and evaluate the success of programs towards these performance indicators built into HB 2. This evaluation and assessment of the present budget and its results leads into the next discussion between the legislature and the university system about the subsequent budget and how to improve upon performance specific to the original accountability measures and goals, or potential refinements to these.

Thus, the performance budget drives policy and creates the common currency to drive state funding as well as the common language to drive state policy for postsecondary education, both during the interim and during the session.

Over the long term, the legislature could also address the budget base and present law adjustment components by deriving these from a formula that would also be based upon the policy goals and accountability measures. This may be done by identifying the specific state percentage share of funding for the cost of education to Montana resident students that the legislature identifies as critical by the state to fund the core capacity of post-secondary education in Montana. That discussion and process, however, might be best deferred until later, after an opportunity to evaluate a pilot process that would base new proposal budgets upon the above described performance based accountability methodology.

HOW DO WE PROCEED?

To proceed with the university system accountability measures component of performance management and budgeting, the LFC may want to consider the extent to which members would like to see the 2009 biennium budget driven in part by these accountability measures. The section above recommends that an initial effort in this direction should start with “New Proposals” in the university section of the budget.

Should the LFC wish to proceed in this manner, the committee may want to communicate with the Postsecondary Education Policy and Budget interim subcommittee (PEPB) and request that PEPB complete the accountability measures by establishing benchmarks and measurable performance

objectives against these benchmarks. PEPB could then report back to the LFC with these benchmarks and a recommendation that prioritizes the accountability measures and confirms a renewal of the agreement with the Board of Regents, so that LFC could then consider using these to drive specific components (“New Proposals”) of the university system budget in the 2009 biennium.

Decision Points

- The LFC may want to consider a request that PEPB complete the university system accountability measures by setting benchmarks and measurable performance objectives for each of the policy goals together with a prioritization of these, and that PEPB seek renewal of the biennial agreement on these measures with the Board of Regents. The LFC may want to request that PEPB provide this information to the committee by September 2006 so that the LFC can consider using these accountability measures in the budget process for the 2009 biennium budget for the university system.